



Tax Incentives for Producers -- Ethanol and Biodiesel Fuels

South Carolina provides state income tax credits and other incentives for the production of alternative fuels ethanol and biodiesel. Additionally, the state has an income tax credit for research and development of biodiesel and ethanol (Act No. 386, 2006 and Act No. 83, 2007).

What is covered?

- A State income tax credit is provided to individuals and businesses that produce ethanol or biodiesel fuel. For tax years 2006 through 2013, the tax credit is 20 cents per gallon of biodiesel made from soy oil and ethanol made from corn. The tax credit increases to 30 cents per gallon when biodiesel is produced from non-soy and ethanol from non-corn feedstocks.
- A state income tax credit is provided for up to 25 percent of the cost of constructing and equipping a facility for “processing” alternative fuels. This also includes biomass handling equipment, crushing and milling equipment, and other equipment necessary to produce biofuels. The tax credit must be taken in seven equal annual installments beginning with the tax year in which the facility was placed in service, but the law granting the credit expires after 2011.
- Beginning in 2008, a state income tax credit is provided for up to 25 percent of expenditures to develop feedstocks and processes for cellulosic ethanol and for algae-derived biodiesel. “Cellulosic ethanol” means fuel from ligno-cellulosic materials, including wood chips, corn stover, and switchgrass.

Maximum credit allowed

- The tax credit for ethanol and biodiesel production can be taken for up to 60 months, with an annual maximum of 25 million gallons.
- The state tax credit for production equipment must not exceed \$1,000,000 for all equipment tax credits for a facility which is involved in the production of ethanol and biodiesel.
- A taxpayer's total credit for research and development of ethanol and biodiesel feedstocks for all expenditures in all years must not exceed \$100,000. Unused credits may be carried forward for five years after the tax year in which a qualified expenditure was made.

How Now?

- In order to qualify for the tax credit for biodiesel production, a manufacturer must complete state form L-2191.
- In order to claim the tax credit for biodiesel production, a manufacturer needs to complete state form TC-39 and attach it to the state income tax return.
- New forms have not yet been released by the SC Department of Revenue for tax credits for ethanol production, biodiesel or ethanol facility construction, and equipment costs or ethanol or biodiesel research and development costs.

Disclaimer: This information is not intended to provide advice on legal interpretations of the law. This information should not be relied upon in taking or refraining from taking any action related to the topics covered. The best source of information is guidance provided by the Internal Revenue Service and the South Carolina Department of Revenue.